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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of)
)
Policies and Rules Concerning Rates for) CC Docket No. 87-313
Dominant Carriers) CC Docket No. 93-197
Revisions to Price Cap Rules for AT&T)

COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

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CC Docket No. 87-313

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SUMMARY*

The FNPRM proposes many significant changes to the AT&T Price Cap Plan. SWBT has concerns that many of these changes could affect demand for access services that AT&T purchases from SWBT and the ability of many residential ratepayers to afford MTS service.

SWBT agrees with the Commission that further analysis is needed before more of AT&T's services are removed from price cap regulation. SWBT notes, however, that this analysis should be accomplished on a market-by-market basis, not on a carrier-by-carrier basis.

SWBT supports a modified version of the FNPRM's option 1 as a means to ensure that the benefits of competition flow to all residential MTS customers. The upper banding limit on this option, however, should be reduced, possibly significantly, from the proposed 5% level.

SWBT is concerned that the FNPRM's proposals for APPs may add unnecessary complexity to the price cap structure, and clarification on the issues raised by SWBT herein are requested. Also, the proposed changes for new services should be reviewed so as not to allow AT&T to circumvent the regulation of basic schedule rates.

The Commission must exercise particular caution here in changing the rules governing exogenous treatment of accounting rules for AT&T. The change to the LEC rules is on appeal and may not be sustained. However, the Commission must not unfairly convey advantages to AT&T in light of the changes to the LEC price cap plan already in effect.

* All abbreviations used herein are referenced within the text.

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COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), hereby files its Comments pursuant to the Further Notice of Proposed Rulemaking issued by the Federal Communications Commission (Commission) on May 18, 1995.¹ As will be shown by these Comments, SWBT is vitally interested in the outcome of this review of the AT&T price cap plan for a number of reasons, including: the demand for SWBT's services is directly influenced by the demand for AT&T's services,² and further, the goal of universal service is influenced by the level of AT&T's residential MTS rates, because customers disconnecting telephone service generally do so for nonpayment of toll charges, not due to the price for basic local exchange service. These interests compel SWBT to comment upon the various aspects of the AT&T price cap plan under revision in this proceeding.

¹ Policy and Rules Concerning Rates for Dominant Carriers Revisions to Price Cap Rules for AT&T, CC Docket No. 87-313, CC Docket No. 93-197, Further Notice of Proposed Rulemaking (FCC 95-198) (released May 18, 1995) (FNPRM).

² Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order (FCC 95-132) (released April 7, 1995).

I. REMOVAL OF SERVICES FROM PRICE CAP REGULATION

The Commission concludes that it would not at this time adopt AT&T's request to have AT&T's Basket 1 promotions and Optional Calling Plans (OCPs) removed from price cap regulation.³ Instead, it tentatively determines that further streamlining of OCPs and promotions should be considered together with AT&T's motion for non-dominant status in a separate proceeding.

As a basic principle, SWBT agrees with the Commission's policy of reducing unnecessary regulatory restraints as competitive forces provide market discipline. However, in this instance sufficient market discipline does not yet exist to allow AT&T such significant additional regulatory flexibility.

As discussed in comments recently filed with the Commission,⁴ the recent history of pricing behavior in the residential long distance market demonstrates that the level of competition needed to justify removal of residential domestic MTS promotions and OCPs from price cap regulation does not currently exist. The Further Opposition and its supporting affidavits demonstrate this point.

³ FNPRM at para 35. The Commission concluded that Basket 1 domestic MTS promotions, domestic MTS OCPs, and basic schedule MTS offerings exhibit substantial cross-elasticities of demand and are generally offered to the same class of customers, i.e., residential customers.

⁴ Further Opposition of Bell Atlantic Corporation, BellSouth Corporation, Pacific Telesis Group and SBC Communications, Inc. to AT&T's Motion for Reclassification as a Nondominant Carrier, CC Docket No. 79-252, In the Matter of Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorization Therefor. (Further Opposition)

Local exchange companies (LECs) have dramatically reduced access charges since 1984. In fact, the magnitude of these LEC access price reductions alone more than account for the full amount of reductions in long distance prices over the past twelve years.⁵ While AT&T has apparently complied with its existing price cap rules, AT&T has increased basic domestic MTS prices over the past several years.⁶ Thus, as confirmed by statements in AT&T's recent annual reports, AT&T has been experiencing the benefits of reduced access costs and has increased its gross margins at the same time that it claims markets have become more competitive.⁷ Also, the prices charged by the three largest carriers in the residential long distance markets have moved in "lock-step" with one another.⁸ This evidence points out the need to be cautious in allowing AT&T any additional regulatory flexibility and suggests the need for

⁵ Further Opposition at p. 7 and Attachment E, "An Analysis of the State of Competition in Long Distance Telephone Markets," by William E. Taylor and J. Douglas Zona. This study demonstrates that since 1984 AT&T has benefitted from over \$10.4 billion in LEC access reductions, but has reduced its long distance prices by \$8.5 billion over the same period.

⁶ See e.g., FNPRM at para. 30.

⁷ See AT&T 1994 Annual Report at p. 24; and AT&T 1993 Annual Report at p. 25.

⁸ There have been six instances during 1991 through 1994 where AT&T has raised its prices and MCI and Sprint have matched the AT&T price increases within days. Further Opposition, p. 8. Tellingly, in several of these instances where MCI and Sprint mirrored AT&T's price increases, the AT&T price increase resulted from AT&T-specific cost changes that did not equally affect the costs of MCI or Sprint. This cooperative pricing behavior is in stark contrast to the pricing behavior that is observed in competitive markets. See, also "AT&T Raises Business Service Rates," The Washington Times, May 16, 1995, Final Edition, page B6.

modification of certain rules to accomplish existing regulatory goals.

SWBT agrees with the Commission that the above issues can be addressed as part of a proceeding that also addresses the extent to which AT&T retains dominant carrier status.⁹ However, removal of services from price cap regulation should not depend on the status of the carrier. Obviously, nondominant carrier status is not a prerequisite for the removal of services from price cap regulation. Rather, services should be removed from price cap regulation once they become competitive, as the Commission has already done for many of AT&T's services.

It is the competitiveness of individual markets which determines whether a provider can exercise market power or be "dominant" in that market. The determination of dominance should be made at the individual market level, not at the firm level.

For the reasons described above, SWBT supports the Commission's decision to obtain a more complete record on the larger issues regarding whether AT&T retains market power in the residential MTS markets.

⁹ SWBT strongly believes that the classification of carriers as either dominant or nondominant is an improper and inefficient means of regulation. Rather, the Commission should examine the geographic and service dimensions of markets and permit all carriers within a market the same degree of pricing and other regulatory flexibilities and constraints. See, Comments of Southwestern Bell Corporation, filed March 29, 1993, in CC Docket No. 93-36, at pp. 8-9.

II. ENSURING AFFORDABLE BASIC MTS RATES

As a threshold matter, the FNPRM seeks comment on the significance of the AT&T basic rate schedule.¹⁰ The Commission questions whether the availability of local telephone service is affected by increases in AT&T's basic schedule of rates for interstate MTS, citing nonpayment of toll charges as a potential major reason for disconnection.¹¹ The Commission also notes the recent trend of AT&T price increases in basic schedule MTS.¹² The FNPRM suggests two options: Option 1, creates a basic rate index with an upper limit of 5%,¹³ Option 2, creates a "safety net" of low-usage plans, one for low-income users, another for low-usage customers available to all consumers.¹⁴

A. Relationship Between Availability of Local Telephone Service And AT&T's Basic Schedule Rates

There are a number of studies, including the two cited by the FNPRM (footnote 137), which show that customers who disconnect their service for financial reasons do so primarily because of high toll charges that accumulated on their account. For example, a disconnect study conducted by SWBT in Kansas in 1986¹⁵ concluded that 65 percent of the target group respondents felt that long

¹⁰ FNPRM at para. 59.

¹¹ FNPRM at para. 61.

¹² FNPRM at para. 30.

¹³ FNPRM at paras. 64-65.

¹⁴ FNPRM at para. 66.

¹⁵ "Kansas Disconnect Study," SWBT, May 1986 (unpublished manuscript available from SWBT).

distance charges were a problem. In contrast, only 36 percent felt local charges were a problem.

Another study conducted by SWBT in Arkansas in 1987 and 1988¹⁶ found similar results: 63 percent agreed that long distance charges became so great that they could not afford to keep their telephone service (compared to only 35 percent for local). Also, 38 percent stated that long distance alone was the reason why they disconnected; 19 percent said it was because of both long distance and local; and just 8 percent said local was the only reason why they disconnected. A 1988 disconnect study in Connecticut¹⁷ concluded that low-income households can afford the lower-priced monthly service offerings, but only if they carefully control the number of toll and message unit calls made. Of the 105 respondents that still had to pay off debts from a previous telephone account, 57 percent stated that long distance calls caused all or most of this arrearage.

Other more recent studies also support these findings. A disconnect study in Camden, New Jersey, released earlier this year¹⁸ found that most lower income users are driven off the network by usage-related costs rather than access-related costs. A study

¹⁶ "Arkansas Disconnect Study - The Third Phase Questionnaire," SWBT, November 1988 (unpublished manuscript available from SWBT).

¹⁷ "An Exploratory Study of: Low-Income Telephone Subscribers and Non-Subscribers in Connecticut," RPM Systems, Inc., prepared for the Connecticut Department of Public Utility Control, May 25, 1988.

¹⁸ "Universal Service from the Bottom Up," Milton Mueller and Jorge Reina Schement (Rutgers University), January 1995.

by Hausman, Tardiff and Belinfante (May 1993)¹⁹ found that since divestiture the combined impact of reduced toll prices (primarily brought about by access reductions financed through increases to the SLC) and increased monthly basic access charges, has led to increased penetration rates, and not to a reduction as some might have believed. This finding also implies that high toll charges are the principal deterrent to keeping customers on the network or in signing up new customers, and not basic local rates.

Taken together, these studies all support the premise that keeping down toll charges is a major problem for many low income customers. These findings support the creation of a basic rate index as a way to constrain and monitor basic MTS rate increases.

B. Basic Schedule Rate Index

SWBT supports a modified version of Option 1 as a means of ensuring that the benefits of LEC access charge reductions flow to those customers who have not yet benefitted from effective competition for residential MTS. The increased pricing flexibility from establishing a single domestic MTS service category, which can also include promotions and optional calling plans (the APPs), would allow rate increases in basic MTS rates to offset price decreases in the services and pricing options also included within this service category.

¹⁹ Hausman, Tardiff and Belinfante, "The Effects of the Breakup of AT&T on Telephone Penetration in the United States," 83 AMERICAN ECONOMIC REVIEW 178 (May 1993).

The need for a basic rate index is strongly evidenced by AT&T's recent filing to adjust its price cap indexes in light of LEC access charge decreases. Exhibit 3 of AT&T's filing shows that AT&T's actual price index (API) has not changed in light of the approximate \$1.2 billion in LEC access charge decreases.²⁰ A basic rate index is therefore needed to protect customers of basic MTS services from escalating prices.

AT&T's basic schedule rates are the benchmark within the industry against which AT&T and other interexchange carriers measure the rates of their various long distance service offerings. It is firmly established industry practice that other IXCs and AT&T advertise their rates and discounted services as specified discounts from AT&T's non-discounted basic MTS rates. Long-distance resellers by their very nature try to maintain a contribution margin between their rates and their costs, of which the latter are often discounts from AT&T's basic rates. In addition, AT&T itself has expanded its own discounted MTS offerings, and has also expanded its reliance on the AT&T basic schedule rates as a reference point for calculating discounts.

Given the importance of AT&T's basic rate schedule, SWBT believes that a five percent upper banding limit on this basic rate index, as proposed by the Commission, allows AT&T significant upward pricing flexibility and has the potential to be too high.

²⁰ Letter from Mr. M. F. DelCasino, AT&T, to Mr. William F. Caton, FCC, dated June 22, 1995.

Instead, the Commission should consider an upper banding limit of less than five percent.

Considering that AT&T's basic MTS rates represent a key guidepost for telecommunications customers, it is particularly important to ensure that this benchmark measure is properly calculated so that it is an accurate measurement of AT&T's basic rate schedule. In that regard, the Commission may wish to specify a specific price index method for use by AT&T in calculating the basic rate index, similar to the methods used in the LEC price cap plan.

Based on the fact that AT&T has historically not provided any explanation of how it calculates compliance with the residential index in Section 61.47(f)(2), SWBT does not know whether AT&T uses an Actual Price Index (API) method or an Average Revenue Per Minute (ARPM) method in its compliance with the residential index. Use of ARPM in the calculation of price indexes would incorrectly mix price changes with demand substitution and give false signals regarding price changes. An ARPM calculation will show a lower average price during periods when customers are shifting to discount plans, because the lower-priced option will receive a rising weight over time in the average price calculation. Thus, during periods where customers' use of discount plans is rising noticeably, the ARPM measurements will significantly understate the true path of prices. If, on the other hand, AT&T has been and continues to use an API method in its compliance with the residential index, then this specific concern is moot. The

proposed basic rate index could then be used to assess the extent to which all U.S. residents have affordable basic MTS services available to them.

SWBT believes it imperative to incorporate a mechanism to ensure that access reductions resulting from efforts to remove subsidies would be properly flowed through, dollar-for-dollar, in an equitable manner to all of AT&T's customers. The proposed basic schedule rate index would provide such a mechanism.²¹ To the extent that access reductions aimed at lessening embedded subsidies are not passed through to AT&T's basic schedule rates, consumer benefits from this type of efficient rate rebalancing would be compromised. For example, an increase in the Subscriber Line Charge (SLC) would result in substantial efficiency gains to consumers but only if the resulting access reductions directly translate into reduced long distance prices. In this case, SWBT supports a direct flow through of access expense reductions to the basic rate schedule so that all consumers stand to gain. Thus, the objective of a dollar-for-dollar flow-through of LEC access charge reductions resulting from the removal of subsidies in LEC access rates supports the need for a relatively tight upper limit on the basic schedule rate index.

²¹ Any access reductions flowed through to AT&T's basic rate schedules will also affect prices for AT&T's APPs. These discounted prices are pegged to the basic rate schedule.

III. SERVICE CATEGORY CHANGES

A. Collapsing Service Categories

The FNPRM proposes to combine four existing domestic MTS service categories into one -- Domestic Day MTS; Domestic Evening MTS; Domestic Night/Weekend MTS; and ReachOut America.²² SWBT supports the Commission's general goal of simplifying price cap regulation and removing unnecessary regulatory burdens imposed on carriers.²³ In that regard, SWBT supports combining baskets and bands whenever appropriate. In this case SWBT supports the Commission's proposal to combine AT&T's existing time-of-day MTS service categories into a single domestic MTS service category as long as appropriate price constraints exist on overall residential prices.²⁴ Combining these substantial revenue streams into one very large service category will provide AT&T with substantially greater pricing flexibility.

B. Upper Limits

The Commission tentatively concludes that a 4% upper limit on the Domestic MTS Service Category is appropriate.²⁵ Listed below are the two paragraphs of the Commission's rules that govern pricing of AT&T's residential services in Basket 1:

§ 61.47 Adjustments to the SBI; pricing
bands.

²² FNPRM at paras. 40-42.

²³ FNPRM at paras. 40-42.

²⁴ See, SWBT's Comments on AT&T's Petition for Waiver of Part 61.47 (f)(2) of the Commission's Rules, filed June 19, 1995.

²⁵ FNPRM at paras. 43-44.

(f) Dominant interexchange carriers

(1) The upper pricing bands for the evening MTS and night/weekend MTS service categories shall limit the annual upward pricing flexibility for those service categories, as reflected in their SBIs, to four percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the preceding tariff year.

(2) Dominant interexchange carriers subject to price cap regulation shall calculate a composite average rate for services contained in the residential and small business services basket that are purchased by residential customers. Notwithstanding paragraph (f)(1) of this section, the annual upward pricing flexibility for this composite average rate shall be limited to one percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the proceeding tariff year.²⁶

The FNPRM asks whether a four percent upper band limit on the proposed single domestic MTS Service category would essentially match the constraints in the rules above that currently apply to AT&T's services. The FNPRM seems to imply that the most restrictive provision in the current rules is Section 61.47 (f)(1). However, Section 61.47 (f)(2), the rule requiring the residential index, is the binding constraint on residential MTS service prices. When the pricing constraints on AT&T's service are viewed in their entirety, the effective constraint on prices is the one percent upper limit represented by the residential index in Section 61.47

²⁶ The Report and Order in CC Docket No. 93-197, In the Matter of Revisions to Price Cap Rules for AT&T Corp., released January 12, 1995 did not delete the words "and small business" from the name for Basket 1 in § 61.47(f).

(f)(2). For this reason, SWBT believes that the upper band limit on the Domestic MTS service category is less important than the limit imposed on the basic schedule rate index but should be set in conjunction with the upper limit on the basic schedule rate index.²⁷

C. Lower Limits

The Commission tentatively concludes that predatory pricing by AT&T is not a significant concern given AT&T's price cap plan and today's environment where each of the largest three IXCs offers some form of long distance promotional discounts; therefore, the Commission proposes a 15 percent lower limit on the domestic MTS service category band.²⁸ SWBT concurs with the Commission's assessment of predation and believes the 15 percent lower banding limit is reasonable.

As the Commission states, predatory pricing is an unlikely occurrence. Predatory pricing takes place when a firm sets its prices for a competitive service temporarily below its costs in hopes that the low prices will drive competitors out of business. The predatory firm will then raise its prices so high that it will recoup its temporary losses, and earn additional profits, all before new firms (attracted by the high prices) enter

²⁷ As described above, SWBT recommends an upper limit on the basic rate schedule index of less than 5% (more in line with the existing 1% residential index), which if adopted would make a 4% upper limit on the Domestic MTS Service Category a nonbinding constraint. In this case, the 4% upper limit on the service category could be eliminated.

²⁸ FNPRM at paras. 45-46.

its market and force prices down again.²⁹ Such a predatory pricing strategy is either irrational or extremely risky and is considered exceptionally rare in American industry. No firm, regulated or not, has a credible incentive to engage in this type of pricing strategy.

IV. ALTERNATIVE PRICING PLANS

The Commission has tentatively determined that self-selected promotions and OCPs should be treated in the same manner under price cap rules, and it proposes to create a new regulatory category for self-selected promotions and OCPs: "alternative pricing plans" (APPs). The defining characteristic of an APP would be that it offers a self-selected alternative or a discounted rate to domestic MTS or other price cap services provided under basic schedule rates.³⁰

The FNPRM also proposes to allow APPs to be filed initially on a streamlined basis without cost support outside of price cap regulation. The APPs would expire 90 days after the effective date unless AT&T filed a transmittal with actual cost

²⁹ A predatory pricing episode consists of three stages: the "rival-bashing" stage, in which prices are set below costs; the "exit" stage, in which the predator firm's rivals exit the market; and the "recoupment" stage, in which the predator firm charges high prices, and recoups its temporary losses incurred in the "rival-bashing" stage, plus earns additional profits as well. Theoretically, in a predatory pricing episode, the firm engaging in predation expects to earn greater profits than if it did not engage in predation at all. Carriers are not able to accomplish this "episode."

³⁰ FNPRM at para. 37.

support and demand revenues for the initial 90-day period, subject to tariff review and approval, to include the APP as a permanent offering under price cap regulation.³¹ The FNPRM also proposes to require quarterly true-ups to refine calculation of "headroom"³² and proposes to avoid the use of forecasted demand by requiring AT&T to use historical demand.³³

The creation of a new regulatory classification of services -- APPs -- if properly crafted could enable carriers to offer the alternative pricing plans that customers are demanding. However, creation of additional regulatory classifications of services may result in unnecessary complexities and disputes.

SWBT generally supports the ability for price cap carriers to offer new customer alternatives on a streamlined basis without cost support. Even absent services available from a carrier's competitors, the availability of existing services subject to price regulation provides a strong discipline that prevents the carrier from offering new alternatives that are less attractive than those existing services.

The Commission proposes to define APPs as distinct from new services. This distinction, however, may not always be clear. For the most part, new services are self-selected alternatives (which is also the defining characteristic for APPs). Customers would not purchase new services if they did not represent

³¹ FNPRM at paras. 38, 53.

³² FNPRM at para. 56.

³³ FNPRM at paras. 49, 57.

attractive voluntary alternatives to existing telecommunications services. Thus, the application of the distinction between APPs and new services may not be straightforward. SWBT is concerned that the administration of yet another classification of services will add complexities and conflicts to the tariff review process. SWBT is also concerned that the Commission's APP proposal not delay efforts to accomplish meaningful reform of the regulation of new services.

SWBT supports the Commission's recommendation regarding the use of actual demand rather than forecasted demand levels. To the extent that AT&T's use of forecasted demand in its price cap index compliance calculations has allowed AT&T to create "headroom" that was not intended by the Commission's rules, the use of actual demand will be an improvement.

The Commission should not require AT&T to true-up its headroom calculations on a quarterly basis because such true-ups conflict with the basic price cap plan concept of a static base period demand.³⁴ Ninety days of actual APP demand should be sufficient to calculate an index effect. If, in specific instances, AT&T or commentators feel that the 90 days of demand data are unrepresentative, AT&T should be able to justify the necessary demand adjustment at the time of the initial index effect

³⁴ The only exception under the existing rules is a restructure that requires a recast of base period demand. In this case a one-time index adjustment is made based on an estimate of how the base period demand would have changed had the restructure been in effect throughout the base period. Moreover, once updated for the next base period, actual demand data for the restructured service is used in all subsequent filings. (See 47 C.F.R. Section 61.47(d)).

calculation. Subsequent base periods would include the actual demand for the APP. Therefore, any future price changes in the service category would be properly weighted in determining the basket API and service category SBI.

The FNPRM proposes to allow AT&T to receive immediate price cap credit for APPs upon conclusion of a 90-day period.³⁵ The Commission seeks comment on how this approach should be applied to AT&T's existing, on-going promotional offerings which fall outside the APP definition, such as "True" promotions.³⁶

SWBT believes that it is appropriate to provide "credit" for the price reductions made when customers are provided lower-cost alternatives to existing services. In that regard, providing AT&T with credit for APPs once they are brought under price cap regulation is appropriate. Providing this credit, however, should not be a means of circumventing the regulation of basic schedule rates that the Commission practices today (in the form of the residential index) or should put in place as a result of this proceeding.

The Commission proposes to allow first year APP price changes to be effective on 14 days' notice and proposes that any "change in price cap indices" be filed on 45 days' notice.³⁷ The Commission should clarify that this proposal would not require that

³⁵ FNPRM at para. 48.

³⁶ FNPRM at para. 50.

³⁷ FNPRM at para. 56.

APIs and SBIs be effective on different dates from the associated price changes.

To the extent that AT&T is required to include existing services that are promotional offerings in the categorization of APPs under price cap regulation, it would be reasonable to require AT&T to reflect those services in price cap calculations using the existing restructured service rules. The incorporation into price cap index calculations of the APPs for existing AT&T services using restructured service rules would neither add to or subtract from the amount of "headroom" that currently exists. Such filings should be tariff filings, could be made on 45 days' notice, and should be accompanied with the demand and price information necessary to verify AT&T's calculations.

V. NEW SERVICE RULES

The Commission requests comment on its suggestion for a de minimus test for streamlined regulation of new services.³⁸ SWBT supports the use of a de minimus new services test that allows the carrier to introduce new services under streamlined regulation. SWBT supports a Commission policy that would allow all carriers, including SWBT, to offer new services under the streamlined regulation. SWBT presumes that the proposed de minimus test was designed to allow most of AT&T's new services in Basket 1 to be

³⁸ The FNPRM suggests a de minimus test for new services where streamlined regulation would apply if the projected new service demand was less than 5% of the overall projected demand within the net revenue test period. FNPRM, para. 52.

introduced and maintained outside of price cap regulation, under streamlined regulation.

VI. EXOGENOUS TREATMENT

The Commission has proposed to adopt the same rules regarding exogenous treatment of accounting rules as were recently adopted for LECs. Also, the FNPRM seeks comment on whether any differences between AT&T and LECs justify the adoption of different exogenous rules governing accounting issues.³⁹

While SWBT strongly believes that all price cap carriers, including AT&T and the LECs, should be afforded the same exogenous cost treatment, the current proposal suggests a movement in the wrong direction. The exogenous treatment rules adopted for the LECs in the LEC Price Cap Performance Review Report and Order were misguided and inappropriate, and place a substantial burden on price cap carriers to absorb accounting rules changes. This erroneous treatment should not now be also imposed on AT&T: two "wrongs" do not make a "right." Instead, the Commission should correct its misguided LEC exogenous cost treatment and allow AT&T and the LECs alike to continue to recover exogenous costs in the same manner the Commission originally established.

However, the Commission's actions in this area must not be unreasonably discriminatory. Unfair advantages are conveyed through the unequal application of regulation. If the Commission does not adopt further revisions to the rules applied to the LECs,

³⁹ FNPRM at paras. 69-70.

and if the new rule is not overturned on appeal,⁴⁰ then the Commission must impose equal treatment on AT&T and the LECs by adopting the "economic" accounting change test in the context of the AT&T plan. Under such a plan, the Commission would require AT&T to remove from its price cap indexes any current recovery of SFAS-106, SFAS-112 and other so-called "noneconomic" accounting changes precluded in the LEC price cap plan.

VII. CONCLUSION

For the foregoing reasons, SWBT respectfully requests that the Commission modify its tentative conclusions for the AT&T price cap plan as noted above and adopt the changes recommended by SWBT.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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July 30, 1995

⁴⁰ Southwestern Bell Telephone Company v. FCC (Case No. 95-1234, D.C. Cir.).

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "In the Matter of Policies and Rules Concerning Rates for Dominant Carriers Revisions to Price Cap Rules for AT&T," in CC Docket No. 87-313, 93-197 has been filed this 30th day of June, 1995 to the Parties of Record.

A handwritten signature in cursive script that reads "Katie M. Turner". The signature is written in black ink and is positioned above a solid horizontal line.

Katie M. Turner

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